HEXCEL CORP /DE/
Form 10-Q
July 27, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10–Q

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2009

or

o	**Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 1-8472

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	**94-1109521**
(State of Incorporation)	(I.R.S. Employer Identification No.)

Two Stamford Plaza

281 Tresser Boulevard

Stamford, Connecticut 06901-3238

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: **(203) 969-0666**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 23, 2009
COMMON STOCK	**96,648,972**

Table of Contents

HEXCEL CORPORATION AND SUBSIDIARIES

INDEX

		Page
PART I.	FINANCIAL INFORMATION	
ITEM 1.	Condensed Consolidated Financial Statements (Unaudited)	
	• Condensed Consolidated Balance Sheets June 30, 2009 and December 31, 2008	3
	• Condensed Consolidated Statements of Operations The Quarters and Six Months Ended June 30, 2009 and 2008	4
	• Condensed Consolidated Statements of Cash Flows The Six Months Ended June 30, 2009 and 2008	5
	• Notes to Condensed Consolidated Financial Statements	6
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	27
ITEM 4.	Controls and Procedures	28
PART II.	OTHER INFORMATION	28
ITEM 1.	Legal Proceedings	28
ITEM 1A.	Risk Factors	29
ITEM 4.	Submission of Matters to a Vote of Security Holders	29
ITEM 5.	Other Information	29
ITEM 6.	Exhibits and Reports on Form 8-K	30
SIGNATURE		31

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements (Unaudited)

Hexcel Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

(In millions, except per share data)	(Unaudited) June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 72.6**	$ 50.9
Accounts receivable, net	**173.5**	189.4
Inventories, net	**171.4**	195.3
Prepaid expenses and other current assets	**38.4**	45.1
Total current assets	**455.9**	480.7
Property, plant and equipment	**1,025.8**	971.7
Less accumulated depreciation	**(441.1)**	(419.4)
Net property, plant and equipment	**584.7**	552.3
Goodwill and intangible assets	**56.9**	56.0
Investments in affiliated companies	**10.8**	10.6
Deferred tax assets	**80.0**	88.3
Other assets	**26.5**	22.4
Total assets	**$ 1,214.8**	$ 1,210.3
Liabilities and Stockholders Equity		
Current liabilities:		
Notes payable and current maturities of capital lease obligations	**$ 13.2**	$ 2.1
Accounts payable	**74.7**	120.5
Accrued liabilities	**85.1**	101.6
Total current liabilities	**173.0**	224.2
Long-term notes payable and capital lease obligations	**390.8**	392.5
Other non-current liabilities	**83.9**	84.4
Total liabilities	**647.7**	701.1
Stockholders equity:		
Common stock, $0.01 par value, 200.0 shares authorized, 98.6 and 98.3 shares issued at June 30, 2009 and December 31, 2008, respectively	**1.0**	1.0
Additional paid-in capital	**531.9**	526.1
Retained earnings	**54.8**	14.6
Accumulated other comprehensive income (loss)	**3.9**	(8.7)
	591.6	533.0
	(24.5)	(23.8)

Less Treasury stock, at cost, 2.0 and 1.9 shares at June 30, 2009 and December 31, 2008, respectively				
Total stockholders equity		**567.1**		509.2
Total liabilities and stockholders equity	**$**	**1,214.8**	$	1,210.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

	(Unaudited)			
	Quarter Ended June 30,		Six Months Ended June 30,	
(In millions, except per share data)	2009	2008	2009	2008
Net sales	**$ 277.3**	$ 359.5	**$ 584.6**	$ 704.0
Cost of sales	**214.2**	283.4	**444.5**	547.8
Gross margin	**63.1**	76.1	**140.1**	156.2
Selling, general and administrative expenses	**25.3**	30.0	**54.6**	62.0
Research and technology expenses	**6.4**	8.0	**14.2**	16.5
Business consolidation and restructuring expenses		1.2		1.8
Other operating expenses	**1.7**	7.6	**1.7**	10.2
Operating income	**29.7**	29.3	**69.6**	65.7
Interest expense, net	**7.5**	5.9	**12.9**	10.9
Income before income taxes and equity in earnings of affiliated companies	**22.2**	23.4	**56.7**	54.8
Provision (Benefit) for income taxes	**5.7**	(2.0)	**16.9**	7.5
Income before equity in earnings of affiliated companies	**16.5**	25.4	**39.8**	47.3
Equity in earnings of affiliated companies	**0.3**	1.3	**0.4**	2.6
Net income	**$ 16.8**	$ 26.7	**$ 40.2**	$ 49.9
Basic net income per common share:	**$ 0.17**	$ 0.28	**$ 0.42**	$ 0.52
Diluted net income per common share:	**$ 0.17**	$ 0.27	**$ 0.41**	$ 0.51
Weighted average common shares outstanding:				
Basic	**96.9**	96.2	**96.8**	96.2
Diluted	**97.8**	97.8	**97.8**	97.8

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In millions)	(Unaudited) Six Months Ended June 30, 2009	2008
Cash flows from operating activities		
Net income	**$ 40.2**	$ 49.9
Reconciliation to net cash provided by (used for) operating activities:		
Depreciation and amortization	**22.5**	22.4
Amortization of debt discount and deferred financing costs	**2.8**	0.8
Deferred income taxes	**12.1**	(3.5)
Business consolidation and restructuring expenses		1.8
Business consolidation and restructuring payments	**(1.3)**	(3.2)
Equity in earnings from affiliated companies	**(0.4)**	(2.6)
Stock-based compensation	**5.5**	6.9
Excess tax benefits on stock-based compensation	**0.4**	(1.0)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	**14.8**	(42.9)
Decrease (increase) in inventories	**22.6**	(20.9)
(Increase) decrease in prepaid expenses and other current assets	**(3.5)**	1.9
Decrease in accounts payable and accrued liabilities	**(48.8)**	(21.9)
Other net	**3.0**	6.8
Net cash provided by (used for) operating activities	**69.9**	(5.5)
Cash flows from investing activities		
Capital expenditures and deposits for capital purchases	**(47.9)**	(86.2)
Net cash used for investing activities	**(47.9)**	(86.2)
Cash flows from financing activities		
Borrowings from credit line - China	**3.9**	
Proceeds from New Senior Secured Credit Facility term B loan	**171.5**	
Repayment of previous Senior Secured Credit Facility	**(167.0)**	
Issuance costs related to New Senior Secured Credit Facility	**(10.3)**	
Proceeds from senior secured credit facility term C loan		79.6
Capital lease obligations and other debt, net	**0.6**	(0.2)
Activity under stock plans	**(0.6)**	1.8
Net cash (used for) provided by financing activities	**(1.9)**	81.2
Effect of exchange rate changes on cash and cash equivalents	**1.6**	1.7
Net increase (decrease) in cash and cash equivalents	**21.7**	(8.8)
Cash and cash equivalents at beginning of period	**50.9**	28.1
Cash and cash equivalents at end of period	**$ 72.6**	$ 19.3

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

HEXCEL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Significant Accounting Policies

In these notes, the terms Hexcel , we, us, or our mean Hexcel Corporation and subsidiary companies. The accompanying condensed consolidate financial statements are those of Hexcel Corporation. Refer to Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2008 for a discussion of our significant accounting policies.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared from the unaudited records of Hexcel pursuant to rules and regulations of the Securities and Exchange Commission (SEC) and in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Certain information and footnote disclosures normally included in financial statements have been omitted pursuant to rules and regulations of the SEC.

In the opinion of management, the condensed consolidated financial statements include all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2008 was derived from the audited 2008 consolidated balance sheet. Interim results are not necessarily indicative of results expected for any other interim period or for the full year. The information included in this Form 10-Q should be read in conjunction with Management s Discussion and Analysis and the financial statements and notes thereto included in our 2008 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of SFAS 133 have been applied, and the impact that hedges have on an entity s financial position, financial performance, and cash flows. We adopted the provisions of this statement effective January 1, 2009. As a result, we have expanded our disclosures regarding derivative instruments and hedging activities within Note 6.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-2, Effective Date of FASB Statement No. 157 , which provides a one year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. In accordance with this interpretation, as of January 1, 2009, the Company adopted the provisions of SFAS 157 with respect to its non-financial assets and liabilities that are measured at fair value within the financial statements. See Note 12.

In December 2008 the FASB issued FSP FAS 132 (R)-1, Employers Disclosures about Postretirement Benefit Plan Assets . This FSP expands the disclosure requirements set forth in SFAS No. 132 (R), Employers Disclosures about Pensions and Other Postretirement Benefits by adding required disclosures about (1) how investment allocation decisions are made by management, (2) major categories of plan assets and (3) significant concentrations of risk. Additionally, FSP FAS 132(R)-1 requires an employer to disclose information about the valuation of plan assets similar to that required under SFAS 157. The standard is effective for our fiscal year ending December 31, 2009. The principal impact from this FSP will be to require us to expand our disclosures regarding our benefit plan assets.

In April 2009, the FASB issued FSP FAS 107 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments , which requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing the FSP, fair values for these assets and liabilities were only disclosed annually. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company adopted this FSP in the second quarter of 2009. As a result, we have expanded our disclosures regarding derivative instruments and hedging activities within Note 5.

Table of Contents

In May 2009, the FASB issued Statement No. 165, Subsequent Events , which established principles and requirements for subsequent events. The statement details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. This statement is effective for interim or annual reporting periods ending after June 15, 2009. The Company adopted this statement in the second quarter of 2009. The Company has performed an evaluation of subsequent events through July 27, 2009, which is the date the financial statements were issued.

In June 2009, the FASB issued Statement No. 168, the FASB Accounting Standards Codification (Codification). Codification will become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities. Once the Codification is in effect, all of its content will carry the same level of authority. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009. The Company will apply the Codification in the third quarter of fiscal 2009. The adoption of the Codification will not have an effect on the Company s financial position and results of operations. However, because the Codification completely replaces existing standards, it will affect the way U.S. GAAP is referenced within the consolidated financial statements and accounting policies.

In June 2009, the FASB issued SFAS 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 , which amends the derecognition guidance in FASB Statement No. 140 and eliminates the exemption from consolidation for qualifying special-purpose entities. This statement is effective for financial asset transfers occurring after the beginning of an entity s first fiscal year that begins after November 15, 2009. This statement will be effective for the Company in 2010. The Company is still assessing the potential impact of adoption.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation No. 46(R) , which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2009. This statement will be effective for the Company beginning in fiscal year 2010. The Company is still assessing the potential impact of adoption.

Note 2 - Inventories, net

(In millions)		June 30, 2009		December 31, 2008
Raw materials	$	75.8	$	89.2
Work in progress		39.4		52.0
Finished goods		78.8		77.3
Total inventories, gross	$	194.0	$	218.5
Inventory allowances		(22.6)		(23.2)
Total inventories, net	$	171.4	$	195.3

Note 3 Retirement and Other Postretirement Benefit Plans

We maintain qualified and nonqualified defined benefit retirement plans covering certain current and former U.S. and European employees, retirement savings plans covering eligible U.S. employees and certain postretirement health care and life insurance benefit plans covering eligible U.S. retirees. We also participate in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations. In December 2006, our Board of Directors voted to terminate the U.S. qualified defined benefit plan as of April 1, 2008. We

completed the settlement of substantially all U.S. qualified defined benefit plan pension obligations as of March 31, 2008. Refer to our 2008 Annual Report on Form 10-K for further information regarding these plans.

Table of Contents

Defined Benefit Retirement Plans

Net Periodic Benefit Costs

Net periodic benefit costs of our defined benefit retirement plans for the quarters and six months ended June 30, 2009 and 2008 were as follows:

(In millions)	Quarter Ended June 30, 2009	Quarter Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
U.S. Qualified and Nonqualified Defined Benefit Retirement Plans				
Service cost	**$ 0.3**	$ 0.4	**$ 0.7**	$ 0.8
Interest cost	**0.2**	0.2	**0.5**	0.5
Expected return on plan assets				
Net amortization and deferral	**0.1**		**0.1**	
Sub-total	**0.6**	0.6	**1.3**	1.3
Curtailment and settlement loss				2.7
Net periodic benefit cost	**$ 0.6**	$ 0.6	**$ 1.3**	$ 4.0
European Defined Benefit Retirement Plans				
Service cost	**$ 0.6**	$ 1.0	**$ 1.2**	$ 2.1
Interest cost	**1.2**	1.9	**2.4**	3.8
Expected return on plan assets	**(1.1)**	(2.1)	**(2.2)**	(4.2)
Net amortization and deferral	**0.2**		**0.3**	(0.1)
Net periodic benefit cost	**$ 0.9**	$ 0.8	**$ 1.7**	$ 1.6

Contributions

We generally fund our U.S. non-qualified defined benefit retirement plans when benefit payments are incurred. Under the provisions of these non-qualified plans, we expect to contribute $0.3 million in 2009 to cover unfunded benefits. We contributed $0.6 million to our U.S. non-qualified defined benefit retirement plans during the 2008 fiscal year. Accrued benefit costs for the U.S. non-qualified defined benefit retirement plans as of June 30, 2009 were $18.1 million, of which $0.3 million is included within accrued liabilities and $17.8 million is included within other non-current liabilities. Accrued benefit costs for the U.S. qualified and non-qualified defined benefit retirement plans as of December 31, 2008 were $17.7 million, of which $1.0 million is included within current accrued liabilities and $16.7 million is included within other non-current liabilities.

We contributed $1.2 million and $1.4 million to our European defined benefit retirement plans in the second quarters of 2009 and 2008, respectively. Contributions were $2.2 million for the six months ended June 30, 2009 and 2008, respectively. Meeting governing requirements, we plan to contribute approximately $4.3 million during 2009 to our European plans. We contributed $4.8 million to our European plans during the 2008 fiscal year. Accrued benefit costs for the European defined benefit retirement plans as of June 30, 2009 were $27.4 million, of which $3.3 million is included within accrued liabilities and $24.1 million is included within other non-current liabilities. Accrued benefit costs for the European defined benefit retirement plans as of December 31, 2008 were $23.2 million of which $ 1.1 million was included within current liabilities and $22.1 million was included within other non-current liabilities.

We contributed $0.8 million and $7.5 million to our U.S. qualified and non-qualified defined benefit retirement plans during the second quarter and first six months of 2008, respectively. Of the total contributed during 2008, $6.4 million was for final settlement of the U.S. qualified plan s remaining benefit obligations, bringing the total contribution for final settlement to $9.7 million. We recorded a pre-tax loss of $2.7 million during the first quarter of 2008 on the final settlement, bringing the total U.S. qualified plan settlement costs to $12.1 million.

Postretirement Health Care and Life Insurance Benefit Plans

Net periodic benefit costs of our postretirement health care and life insurance benefit plans were $0.1 million, primarily consisting of interest costs for the second quarters of 2009 and 2008. For the six months ended June 30, 2009 and 2008, net periodic postretirement benefit costs were $0.2 million. In connection with our postretirement plans, we contributed $0.1 million and $0.4 million during each of the second quarters of 2009 and 2008, respectively, and $0.3 million and $0.6 million during the six-month periods ended June 30, 2009 and 2008, respectively. We periodically fund our postretirement plans to pay covered expenses as they are incurred. Under the provisions of these post retirement plans, we expect to contribute approximately $1.1 million in 2009 to cover unfunded benefits. We contributed $0.8 million to our postretirement plans during the 2008 fiscal year. Accrued benefit costs for the postretirement plans as of June 30, 2009 were $11.0 million, of which $1.1 million is included within accrued liabilities, and $9.9

Table of Contents

million is included within other non-current liabilities. Accrued benefit costs for the postretirement plans as of December 31, 2008 were $11.3 million, of which $1.3 million were included with current liabilities, and $10.0 were included in other non-current liabilities.

Note 4 - Business Consolidation and Restructuring Programs

Reserves associated with the remaining restructuring programs include certain expected severance payments associated with prior reorganizations. Costs associated with the closure of our Livermore facility are for remediation and preparation of the property for sale, which are expensed as incurred. The aggregate business consolidation and restructuring liabilities as of June 30, 2009 and December 31, 2008, consisted of the following:

(In millions)		Employee Severance		Facility & Equipment		Total
Balance as of December 31, 2008	$	2.0	$	0.9	$	2.9
Business consolidation and restructuring expenses						
Cash expenditures		(0.2)		(0.1)		(0.3)
Currency translation adjustments		(0.1)				(0.1)
Balance as of March 31, 2009		1.7		0.8		2.5
Business consolidation and restructuring expenses						
Cash expenditures		**(0.9)**		**(0.1)**		**(1.0)**
Currency translation adjustments		**0.1**				**0.1**
Balance as of June 30, 2009	**$**	**0.9**	**$**	**0.7**	**$**	**1.6**

Note 5 - Notes Payable and Capital Lease Obligations

(In millions)		June 30, 2009		December 31, 2008
Working capital line of credit China	**$**	**3.9**	**$**	
Senior secured credit facility new term B loan due 2014		**171.6**		
Senior secured credit facility - term B loan				87.4
Senior secured credit facility - term C loan				79.3
6.75% senior subordinated notes due 2015		**225.0**		225.0
Total notes payable		**400.5**		391.7
Capital lease obligations and other		**3.5**		2.9
Total notes payable and capital lease obligations	**$**	**404.0**	$	394.6
Notes payable and current maturities of long-term liabilities	**$**	**13.2**	$	2.1
Long-term notes payable and capital lease obligations, less current maturities		**390.8**		392.5
Total notes payable and capital lease obligations	**$**	**404.0**	$	394.6

Estimated Fair Values of Notes Payable

The approximate, aggregate fair value of our notes payable as of June 30, 2009 and December 31, 2008 were as follows:

(In millions)		**2009**		**2008**
6.75% senior subordinated notes, due 2015	**$**	**205.3**	$	171.0
Senior secured credit facility New Term B loan due 2014		**171.4**		
Senior secured credit facility - Term B loan	**$**		$	76.0
Senior secured credit facility - Term C loan	**$**		$	73.0

9

Table of Contents

The aggregate fair values of the notes payable were estimated on the basis of quoted market prices; however, trading in these securities is limited and may differ from the amount for which the security could be transferred in an active market.

Senior Secured Credit Facility

On May 21, 2009, Hexcel Corporation entered into a new $300 million senior secured credit facility (Senior Secured Credit Facility), consisting of a $175 million term loan and a $125 million revolving loan. The term loan matures on May 21, 2014 and the revolving loan matures on May 21, 2013. Hexcel has the option of selecting either a LIBOR-based (the current option used) or U.S. domestic-based interest rate for each of the term loan and the revolving loans. Term and revolving loans borrowed as LIBOR-based loans bear interest at a rate of LIBOR plus 4%, and term and revolving loans borrowed as U.S. base rate loans bear interest at the base rate plus 3%. There is a LIBOR floor of 2.5%, and a base rate floor of 4%. The margin for revolving loans will decrease by 50 basis points if Hexcel s leverage ratio decreases below 2 to 1, and will decrease an additional 25 basis points if Hexcel s leverage ratio decreases below 1.75 to 1. The term loan was borrowed at closing and once repaid cannot be reborrowed. The term loan will be repaid at a rate of approximately $2.2 million per quarter starting in the third quarter of 2009 and increasing to $17.5 million in September 2013 with two final payments of $52.5 million in 2014.

Proceeds from the term loan, and from an initial borrowing under the revolving loan, were used to repay all amounts, and terminate all commitments, outstanding under Hexcel s former credit agreement and to pay fees and expenses in connection with the refinancing.The Company incurred $10.3 million in issuance costs related to the refinancing of the Senior Secured Credit Facility, which will be expensed over the life of the new facility, and included $1.7 million of interest expense related to deferred financing costs associated with the previous credit facility. At June 30, 2009, the Company had no borrowings outstanding under the revolving loan.

The credit agreement contains financial and other covenants, including, but not limited to, restrictions on the incurrence of debt and the granting of liens, as well as the maintenance of an interest coverage ratio and a leverage ratio, and limitations on capital expenditures. A violation of any of these covenants could result in a default under the credit agreement, which would permit the lenders to accelerate the payment of all borrowings and to terminate the credit agreement. In addition, such a default could, under certain circumstances, permit the holders of other outstanding unsecured debt to accelerate the repayment of such obligations.

In accordance with the terms of the Senior Secured Credit Facility, we are required to maintain a minimum interest coverage ratio of 4.00 (based on the ratio of EBITDA, as defined in the credit agreement, to interest expense) and may not exceed a maximum leverage ratio of 2.75 (based on the ratio of total debt to EBITDA) throughout the term of the Senior Secured Credit Facility. In addition, the Senior Secured Credit Facility contains other terms and conditions such as customary representations and warranties, additional covenants and customary events of default. As of June 30, 2009, we were in compliance with all debt covenants.

The Senior Secured Credit Facility permits us to issue letters of credit up to an aggregate amount of $40.0 million. Any outstanding letters of credit reduce the amount available for borrowing under the revolving loan. As of June 30, 2009, we had issued letters of credit totaling $12.5 million under the Senior Secured Credit Facility. As we had no borrowings under the revolving loan at June 30, 2009, total undrawn availability under the Senior Secured Credit Facility as of June 30, 2009 was $112.5 million.

6.75% Senior Subordinated Notes, due 2015

The senior subordinated notes are unsecured senior subordinated obligations of Hexcel Corporation. Interest accrues at the rate of 6.75% per annum and is payable semi-annually in arrears on February 1 and August 1. The senior subordinated notes mature on February 1, 2015. We may not redeem the senior subordinated notes prior to February 1, 2010. We will have the option to redeem all or a portion of the senior subordinated notes at any time during the one-year period beginning February 1, 2010 at 103.375% of principal plus accrued and unpaid interest. This percentage decreases to 102.25% for the one-year period beginning February 1, 2011, to 101.125% for the one-year period beginning February 1, 2012 and to 100.0% any time on or after February 1, 2013. In the event of a change of control (as defined in the indenture), we are generally required to make an offer to all note holders to purchase all outstanding senior subordinated notes at 101% of the principal amount plus accrued and unpaid interest.

Table of Contents

The indenture contains various customary covenants including, but not limited to, restrictions on incurring debt, making restricted payments (including dividends), the use of proceeds from certain asset dispositions, entering into transactions with affiliates, and merging or selling all or substantially all of our assets. The indenture also contains many other customary terms and conditions, including customary events of default, some of which are subject to grace and notice periods.

Note 6 - Derivative Financial Instruments

The Company enters into foreign currency forward contracts to reduce the risks associated with the changes in foreign exchange rates on sales and purchases denominated in other currencies. As described below, the Company has also entered into a cross-currency interest rate swap agreement. The Company does not use these or any other contracts for speculative or trading purposes.

Cross-Currency Interest Rate Swap Agreement

In September 2006, we entered into a cross-currency interest rate swap agreement. It has been designated as a net investment hedge of our investment in Hexcel France SA. To the extent it is effective, gains and losses are recorded as an offset in the cumulative translation account, the same account in which translation gains and losses on the investment in Hexcel France SA are recorded. All other changes, including any difference in current interest, are excluded from the assessment of effectiveness and are thereby included as a component of interest expense. By excluding the interest rate component of risk in this instrument, and recognizing it in current period earnings, we have diversified our floating rate interest rate exposure to include Euro interest rates which provide a better matching with the underlying currency of operating cash flows. The impact to interest expense for the quarter and six months ended June 30, 2009 was a net increase of $0.1 million and $0.3 million, respectively, compared to a net increase of $0.9 million and a net reduction of $0.1 million for the quarter and six months ended June 30, 2008, respectively. This agreement has a notional value of $63.4 million, a term of five years, and is scheduled to mature on September 20, 2011. We receive interest in U.S. dollars quarterly and pay interest in Euros on the same day. U.S. interest is based on the three month LIBOR rate. Euro interest is based on the three month EURIBOR. The fair value of the swap at June 30, 2009 and December 31, 2008 was a liability of $6.7 million and $7.3 million, respectively. There were no credit contingency features in this derivative.

Foreign Currency Forward Exchange Contracts

A number of our European subsidiaries are exposed to the impact of exchange rate volatility between the U.S. dollar and the subsidiaries functional currencies, being either the Euro or the British pound. We have entered into contracts to exchange U.S. dollars for Euros and British pound through 2011. The aggregate notional amount of these contracts was $138.2 million at June 30, 2009. The purpose of these contracts is to hedge a portion of the forecasted transactions of European subsidiaries under long-term sales contracts with certain customers. These contracts are expected to provide us with a more balanced matching of future cash receipts and expenditures by currency, thereby reducing our exposure to fluctuations in currency exchange rates. These forward contracts are designated as cash flow hedges of forecasted revenues per SFAS 133. The effective portion of the hedge is recorded in other comprehensive income, (OCI). We exclude the forward points from the effectiveness assessment which is recorded in interest expense. For the quarters and six months ended June 30, 2009 and 2008, hedge ineffectiveness was immaterial.

In addition, we enter into foreign exchange forward contracts which are not designated as hedges per SFAS 133. These are used to provide an offset to transactional gains or losses arising from the remeasurement of non-functional monetary assets and liabilities such as accounts receivable. The change in the fair value of the derivatives is recorded in the statement of operations. There are no credit contingency features in these derivatives.

Fair values of Derivative Instruments

	As of June 30, 2009		
	Balance Sheet Location		**Fair Value**
Asset derivatives designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other assets	$	3.6
Asset derivatives not designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other current assets		0.5
Total asset derivatives		$	4.1

Table of Contents

	As of June 30, 2009		
	Balance Sheet Location		Fair Value
Liability derivatives designated as hedging instruments under SFAS 133:			
Interest rate contracts	Other non-current liabilities	$	6.7
Foreign exchange contracts	Other non-current liabilities		5.3
			12.0
Liability derivatives not designated as hedging instruments under SFAS 133:			
Foreign exchange contracts	Other non-current liabilities		0.1
Total liability derivatives		$	12.1

The effect of derivative instruments on the Condensed Consolidated Statement of Operations for the three months ended June 30, 2009, was as follows:

Derivatives in SFAS 133 Cash Flow Hedging Relationships		Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign exchange contracts	$	8.0	Sales	$	(2.0)	Interest expense	$	(0.5)
Foreign exchange contracts		0.3	Cost of sales		0.2	Interest expense		
Derivatives in SFAS 133 Net Investment Hedging Relationships								
Interest rate		(3.2)				Interest expense		0.4
Total	$	5.1		$	(1.8)		$	(0.1)
Derivatives Not Designated as Hedging Instruments under SFAF 133								
Foreign exchange contracts	$			$		Interest expense	$	1.3

The effect of derivative instruments on the Condensed Consolidated Statement of Operations for the six months ended June 30, 2009, was as follows:

Derivatives in SFAS 133 Cash Flow Hedging Relationships		**Amount of Gain/(Loss) Recognized in OCI on Derivative (Effective Portion)**	**Location of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**		**Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**		**Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Foreign exchange contracts	$	4.3	Sales	$	(4.3)	Interest expense	$	0.1
Foreign exchange contracts		(0.1)	Cost of sales		0.3	Interest expense		
Derivatives in SFAS 133 Net Investment Hedging Relationships								
Interest rate		(6.4)				Interest expense		(0.1)
Total	$	(2.2)		$	(4.0)		$	
Derivatives Not Designated as Hedging Instruments under SFAF 133								
Foreign exchange contracts	$			$		Interest expense	$	0.4

12

Table of Contents

The change in fair value of our foreign currency forward exchange contracts under hedge designations recorded net of tax within accumulated other comprehensive income for the quarters and six months ended June 30, 2009 and 2008 was as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In millions)	**2009**	**2008**	**2009**	**2008**
Unrealized gains (losses) at beginning of period, net of tax	**$ (9.6)**	$ **4.7**	**$ (8.9)**	$ **3.2**
(Gains) Losses reclassified to net sales	**1.2**	**(0.9)**	**2.4**	**(1.8)**
Increase in fair value	**5.9**	**(0.1)**	**4.0**	**2.3**
Unrealized gains (losses) at end of period, net of tax	**$ (2.5)**	$ **3.7**	**$ (2.5)**	$ **3.7**

As of June 30, 2009, the total unrealized losses recorded in accumulated other comprehensive income, net of tax, of $2.5 million, are expected to be reclassified into earnings over the next twelve months as the hedged sales are recorded.

Note 7 Other Expense

During the second quarter of 2009, the company updated its estimate of costs required to remediate environmental exposures at former sites in Lodi, New Jersey and in France and accordingly increased its reserves by $1.7 million. During the second quarter of 2008, the Company had increased its environmental accruals for the Lodi, New Jersey site by $7.6 million due to new information that more fully identified the extent of the required remediation, as further discussed in Note 14 to the condensed consolidated financial statements. During the first quarter of 2008, in connection with the termination of our U.S. Qualified Defined Benefit Retirement Plan, as described in Note 3 to the condensed consolidated financial statements, we recorded expense of $2.7 million for the settlement of pension obligations.

Note 8 Income Taxes

The income tax provisions for the second quarter and six months ended June 30, 2009 were $5.7 million and $16.9 million, respectively. The effective tax rates were 25.7% and 29.8%, respectively. The rates reflect the release of $1.1 million of reserves for uncertain tax positions as a result of an audit settlement in the second quarter.

The income tax provisions, for the second quarter and six months of 2008 include a benefit for the reinstatement of $14.7 million and $17.2 million, respectively, of U.S. deferred tax assets which had previously been written off. The reinstatement of the deferred tax assets was the result of the implementation of a tax planning strategy which increased our ability to utilize certain U.S. net operating loss carryforwards previously limited under Section 382 of the Internal Revenue Code. The amount of allowable net operating losses available was limited following a change in ownership in 2003. The tax strategy involved a change in the Company s approach to measuring the value of the Company for use in the calculation of limitations on the NOL s.

In addition, primarily as a result of the elimination of our U.S. defined pension plan, a $3.6 million tax provision (previously included in other comprehensive income) was recognized in the second quarter of 2008.

Note 9 - Net Income per Common Share

(In millions, except per share data)	Quarter Ended June 30, 2009	Quarter Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Basic net income per common share:				
Net income	**$ 16.8**	$ **26.7**	**$ 40.2**	$ **49.9**
Weighted average common shares outstanding	**96.9**	**96.2**	**96.8**	**96.2**
Basic net income per common share	**$ 0.17**	$ **0.28**	**$ 0.42**	$ **0.52**
Diluted net income per common share:				
Net income	**$ 16.8**	$ **26.7**	**$ 40.2**	$ **49.9**
Weighted average common shares outstanding Basic	**96.9**	**96.2**	**96.8**	**96.2**
Plus incremental shares from assumed conversions:				
Restricted stock units	**0.3**	**0.3**	**0.5**	**0.3**
Stock options	**0.6**	**1.3**	**0.5**	**1.3**
Weighted average common shares outstanding Dilutive	**97.8**	**97.8**	**97.8**	**97.8**
Diluted net income per common share	**$ 0.17**	$ **0.27**	**$ 0.41**	$ **0.51**

Table of Contents

Total shares underlying stock options of 2.2 million for the quarter and 3.1 million for the six months were excluded from the computation of diluted net income per share for the periods ended June 30, 2009, as they were anti-dilutive.

Note 10 - Comprehensive Income

Comprehensive income represents net income and other gains and losses affecting stockholders equity that are not reflected in the condensed consolidated statements of operations. The components of comprehensive income for the quarters and six months ended June 30, 2009 and 2008 were as follows:

	Quarter Ended June 30,		**Six-Months Ended June 30,**	
(In millions)	**2009**	**2008**	**2009**	**2008**
Net income	**$ 16.8**	$ 26.7	**$ 40.2**	$